

Frequently Asked Questions: Legal Entity Identifier (LEI)

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What is the LEI?

The legal entity identifier (LEI) is a reference code — like a bar code — used across markets and jurisdictions to uniquely identify a legally distinct entity that engages in a financial transaction. The LEI is designed to be a linchpin for financial data — the first global and unique entity identifier enabling risk managers and regulators to identify parties to financial transactions instantly and precisely. A large international bank, for example, may have an LEI identifying the parent entity plus a LEI for each of its legal entities that buy or sell stocks, bonds, swaps, or engage in other financial market transactions.

Why do we need the LEI?

When Lehman Brothers collapsed in 2008, regulators and private sector managers were unable to assess quickly and fully the extent of market participants' exposure to Lehman and how the vast network of market participants were connected to one another. The financial crisis underscored the need for a global system to identify financial connections so regulators and firms can better understand the true nature of risk exposures across the financial system.

The establishment of the global LEI system is a significant achievement that responds to these vulnerabilities and provides meaningful long-term benefits for the public and private sectors.

The financial industry's adoption of the global LEI means data reported externally to supervisors and used internally for risk management purposes will be more consistent and usable. The global LEI helps regulators better monitor and analyze threats to financial stability. It also helps companies improve their internal management of operational risks and reduce costs in collecting, cleaning, and aggregating data, and in reporting data to regulators.

If a global LEI is so useful, why wasn't it established sooner?

Private industry made several attempts over the past 20 years to establish a global entity identification system but private firms and industry associations were unable to achieve the coordination needed to launch a single global solution. After the worldwide financial crisis in 2007-09, leaders from the world's largest economies, operating through the G-20 and Financial Stability Board (FSB), agreed to develop a coordinated solution to help overcome these impediments. This effort resulted in a public-interest initiative that is now the global LEI system..

Why did the OFR get involved and what is the OFR's role?

A key element of the OFR's Congressional mandate is to improve the quality and scope of financial data by assessing gaps in data standards and helping to fill them for the benefit of market participants, regulators, and research communities. The global LEI system is an essential step in fulfilling that mandate.

In November 2010, the OFR issued a [policy statement](#) calling for a global LEI system. Representatives from the financial industry welcomed the call, responded with a proposed solution, and worked together through the FSB to develop a global LEI system. Throughout the FSB process, the OFR played a key role, leading work streams, and working with other regulators and industry to provide recommendations to the G-20 to guide the governance, development, and implementation of a global LEI system.

In January 2013, the finance ministers and senior financial supervisors of the world's largest economies, working through the FSB, agreed to assign responsibility for overseeing the global LEI project to the Regulatory Oversight Committee — a group of more than 50 regulators and representatives from around the globe. Among the earliest decisions, committee members appointed an OFR official as the first chairman.

The OFR has worked with other U.S. regulators to embed the concept of the LEI into rulemakings for financial reporting requirements, and will continue to do so. In the United States and Europe, LEI use was first used in swaps regulation.

How does the LEI work?

Each LEI is a 20-digit alphanumeric code and associated set of six reference data items to uniquely identify a legally distinct entity that engages in financial market activities. This global standard meets the 2012 specifications of the International Organization for Standardization (ISO 17442:2012).

Successful operation of the global LEI system requires support from the global regulatory community, private sector firms, and industry associations. Regulators oversee the system through the Regulatory Oversight Committee, which publishes updates about its work at www.leiroc.org. The committee consulted with private industry to develop a central operating unit, the Global LEI Foundation, which began taking operational responsibility in late 2014. The foundation is led by a 16-member board of directors, all from the private sector. The role of this central operating unit is to ensure that all parties that implement the LEI adhere to governing principles and standards, including reliability, quality, and uniqueness — essential for achieving the shared goal for “one golden standard” for the LEI.

Each LEI code is assigned by an approved local operating unit, which benefits from local knowledge of infrastructure, corporate organizational frameworks, and business practices.

To obtain a LEI from any local operating unit, a company pays an initial registration fee of approximately \$200, followed by an annual maintenance fee of approximately \$100. All fees are paid to the local operating unit to help cover its operating costs. Each local operating unit is required to share a portion of those fees with the nonprofit Global LEI Foundation.

At the end of 2014, approximately 330,000 LEIs had been issued to entities in nearly 190 jurisdictions. The LEIs were issued by 20 local operating units authorized by the Regulatory Oversight Committee, and other local operating units were in the planning stages.

What are the next steps?

As the global LEI system expands, it is expected to help regulators and market participants understand and document complex corporate structures and hierarchies. Some of the largest multinational banks have thousands of legal entities, many with similar names, operating around the globe. Data about the relationships can show networks of control, ownership, liability, and risks, giving financial regulators deeper insights into how market participants are connected to each other. The OFR is helping a working group established by the LEI Regulatory Oversight Committee examine ways to add corporate hierarchy information to the global LEI database.

The Global LEI Foundation plans a central database of LEIs that will be free to the public and all market participants, although privately-sponsored databases already exist.

When will the LEI become widely used by market participants and regulators?

The OFR is committed to promoting widespread adoption of the global LEI and is working with U.S. regulators to expand the use of the LEI in regulatory reporting requirements. The OFR has argued that several key datasets — including call reports filed by banks and securities financial reports and offering materials — should require use of the LEI.

Already, a number of financial regulators in the United States, Europe, Canada, Australia, and Singapore have adopted reporting rules that require companies to use the LEI.

So far, the Federal Reserve System, Commodity Futures Trading Commission (CFTC), and National Association of Insurance Commissioners require the LEI in various reports submitted by the industry about bank holding companies, swap transactions, and insurance investments. Additionally, the Securities and Exchange Commission (SEC), Municipal Securities Rulemaking Board, and CFTC have recommended that the LEI be included in credit rating disclosures, money market funds' monthly submissions, private fund managers' reports, and futures clearing merchants' ownership reports. The SEC and the Consumer Financial Protection Bureau have pending proposals that would require the LEI to appear in swap transactions and home mortgage disclosure submissions.

How does the LEI system benefit industry?

As the global LEI becomes more widely used, it is expected to cut costs and improve risk management by individual firms and across the system. These savings will come primarily from operational efficiencies such as reducing the volume of transaction failures; lowering data reconciliation, cleaning, and aggregation costs; and reducing regulatory reporting costs. A global LEI system will provide long-term benefits to companies by clearly identifying their counterparties and customers, and improving internal risk management. It is premature to estimate how much the

financial industry will save by adopting the global LEI system but industry estimates range from \$300 million to \$10 billion.